



## A picture of the EU car industry

**SUMMARY** 2012 was a tough year for the EU car industry. The chief of one major car-maker said that the industry as a whole probably lost €5 billion in Europe in 2012 and that a solution had to be found to achieve profits.

The perennial problem of surplus production capacity in Europe (15% in 2012) is allied to a mature (roughly flat since 2001) domestic market and buyers facing austerity.

However, the EU car production industry has a long history and still leads world production (26% market share) though others, like China (24%), are growing fast. It is one of the EU's most successful export industries, generating a large, positive trade balance, mostly from more expensive cars. The main competitors are Japan, the US and South Korea.

Car plants are spread throughout the EU - Germany, France, Italy and the UK have most-satisfying 85% of EU car purchases. Local customer preferences, high extra-EU transport costs relative to cars' low profit margins, along with a 10% import tariff rate are reasons for the 'high' level of 85%.

Along with sub-component suppliers and after-sales services, the industry is a major R&D investor, employer – including many SMEs - and generator of state taxes. It is global, networked and integrated.



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### Context

The motor car was invented in Europe 127 years ago. Since then a large European automotive industry - car manufacturers, suppliers and aftermarket services – has built up, representing up to one third of all EU manufacturing jobs. Staff are involved in vehicle assembly, engine etc. production, testing, sales/marketing, financing, distribution, maintenance, recycling and disposal.

[ACEA](#) (European Automobile Manufacturers' Association) represents 15 major EU car, bus and truck manufacturers, accounting for about 95% of EU automotive production.

The European Commission (EC) reported in 2009 that the automotive sector (cars, trucks, buses etc.) has annual sales of €780 billion, with value added of over €140 billion. In 2007 approximately 70% of light vehicle (passenger and light commercial vehicles) production in the EU was in Germany, France, Spain, and the UK.

During the 2000s, production growth came in particular from Poland, the Czech Republic and Slovakia, being close to new customers and benefitting from less costly labour with manufacturing skills.

Along with EU sites, European manufacturers and suppliers have worldwide production networks.

Worldwide, 65 million cars were registered in 2011, of which 13 million were in the EU (56% diesel). EU automotive turnover was €625 billion in 2009. Profitability has suffered in recent years, reflecting greater competition through new entrants to the market, commodity price increases and shortening model life-cycles.

The EU domestic market is split into western Europe where sales are flat representing mostly replacement vehicles in a mature market, and the newer MS, with greater potential given the lower ratio of vehicles to people.

An analysis covering 14 MS by ACEA based mainly on 2010 data showed that these MS received €375 billion in tax revenue related to motor vehicles covering purchasing, fuel taxes, road tolls, annual running fees etc. Top was Germany with €79.1 billion, followed by Italy with €67.8 billion, France €63.5 billion, the UK €56.6 billion and Spain €27.2 billion.

The industry has a pyramid structure with a relatively small number of car manufacturers, a larger number of suppliers to them and then thousands of small and medium-sized companies involved in sales, after-sales and also supplies.

## EU production and sales data

EU's leading sales (2011)	
Make and model	Market share
Volkswagen Golf	4.3%
Ford Focus	3.0%
Renault Mégane	3.0%
Volkswagen Polo	2.7%
Ford Fiesta	2.6%
Peugeot 206/207	2.5%
Opel Corsa	2.4%
Renault Clio	2.2%
Opel Astra	2.1%
Volkswagen Passat	1.9%

Source: CCFA

### Jobs

It was estimated in 2009 by Eurostat that 2 million people were employed directly in the automotive industry, being 6.3% of manufacturing employment (approx. 1% of

Car sales	
2012	'000
AT	336
BE	487
BG	19
CY	11
CZ	174
DE	3 083
DK	171
EE	17
EL	58
ES	700
FI	111
FR	1 899
HU	53
IE	79
IT	1 402
LT	12
LU	50
LV	11
NL	503
PL	274
PT	95
RO	66
SE	280
SI	49
SK	69
UK	2 045
EU	12 054

Source: ACEA  
Malta data unavailable

total EU employment):

- 60%-70% engaged in skilled or semi-skilled manual work,
- 30-40% trained professionals or technicians (e.g. engineers, IT, quality control, marketing...).
- Major direct automotive employment in MS in 2010 was: Germany (709 000), France (220 000), Italy (169 000), the UK (135 000), Spain (126 000), Poland (115 000) and the Czech Republic (106 000).

Further, an estimated 1.2 million work in indirect automotive work (suppliers) with 3.4 million more in services (sales, repairs etc). A significant proportion of automotive jobs are on temporary contracts.

### R&D

Car technologies continue to develop. ACEA says that cars in the EU today have much less pollution and noise than cars of the 1970's. Each US vehicle contains an estimated €1 500 of electronics.

In 2012 it was estimated that ACEA members spent over €26 billion on research and development (R&D); about 5% of sales. Indeed, the auto industry is the largest European investor in R&D at roughly 30% of the total (2008 figure). About 50% is spent by suppliers who also obtain the majority of patents. In 2011, 8 568 patents were filed with the European Patent Office in the automotive sector, of which 58% were from the EU, 20% from Japan and 14% from the US.

EU car plants	
2012	No.
AT	5
BE	5
CZ	6
DE	46
ES	13
FR	29
HU	4
IT	17
NL	3
PL	11
PT	5
RO	2
SE	11
SI	1
SK	2
UK	17
Total	177

Source: ACEA

[EUCAR](#), the research organisation for the major European automotive manufacturers, says that key research areas are fuels, power-train, materials, manufacturing and integrated safety.

The industry is also a big spender on plant and machinery (€40 billion per annum) for the production process itself. There are around 250 factories in 18 EU countries, with ACEA members having 177 plants in 16 countries.

[VDA](#), the German carmakers association said that around 6 million cars were produced in Germany in 2010, with sales of around €317 billion, of which €118 billion were domestic and €199 billion export, and with 708 970 employees.

### Automotive (sub-component) suppliers

The manufacturer designs and assembles the car. First-tier suppliers manufacture and

Major EU suppliers	
	Sales (\$m)
<a href="#">R. Bosch</a>	64 500
<a href="#">Michelin</a>	24 000
<a href="#">Continental</a>	23 000
<a href="#">Faurecia</a>	16 350
<a href="#">ZF Group</a>	16 250
<a href="#">Valeo SA</a>	13 800
<a href="#">GKN</a>	8 500
<a href="#">Autoliv</a>	7 250
Source: PricewaterhouseCoopers 2008	

supply main components (e.g. the fuel pump), while second-tier suppliers produce simpler individual components (e.g. the housing of a fuel pump). Third and fourth-tier

suppliers provide raw materials.

Manufacturing of many vehicle parts - electronics, mechanical and electrical engineering, information technology, steel, chemicals, plastics, metals and rubber products - is now outsourced to sub-contractors.

The European Association of Automotive Suppliers ([CLEPA](#)) is the overall EU

Provisional 2012 top manufacturers		
Car registrations	Number ('000)	Market share %
Volkswagen	2 997	24.7%
Peugeot / Citroen	1 431	11.9%
Renault	1 030	8.5%
GM (Opel)	984	8.2%
Ford	910	7.6%
Fiat	780	6.5%
BMW	768	6.4%
Daimler (Mercedes)	633	5.3%
Toyota	508	4.2%
Nissan	418	3.5%
Hyundai	415	3.4%
Source: ACEA		

representative organisation of these suppliers. The largest of these are mainly American, Japanese or European.

An estimated 3 000 companies, of which 2 500 are small or medium-sized enterprises (SMEs), are independent suppliers to car manufacturers. They range significantly in size and for some the automotive side of their business is not the most important. Many work for more

than one automotive client, indeed first-tier suppliers hardly ever deliver their products to only one manufacturer. In 2007 it was estimated that 20% of the EU's steel and 36% of its aluminium were used in the automotive industry and that typically there were 50 European component suppliers for a car. About 75% of a vehicle's original equipment components and technology is sourced from automotive suppliers.

### The EU aftermarket

According to [CECRA](#) (the European Council for Motor Trades and Repairs), the "aftermarket" consists of approximately 665 000 companies, mostly SMEs, employing approximately 3.5 million people. They look after about 260 million vehicles (cars,

German supplier data		
Supplier	Total Workers	Vehicle sales*
Robert Bosch	270 687	57%
Continental	134 434	95%
ThyssenKrupp	187 495	20%
ZF	60 480	86%
BASF	104 779	10%
Source: Business Reports, 2009 *Part of total business related to vehicles		

trucks and buses) and provide around €82 billion worth of components (spare parts, tyres, accessories, etc.), covering:

- customer services, repair and servicing,
- spare parts,
- accessories and tuning,
- financing services.

**EU institutions' actions**

There are around 80 EU Directives and Regulations and more than 70 [UNECE](#) regulatory agreements mostly covering technological issues and standards.

The EC-organised CARS 21 high-level group's June 2012 report [Competitiveness and Sustainable Growth of the EU Automotive Industry](#) led to the November 2012 EC action plan for "[A competitive and sustainable European automotive industry](#)" covering increased global competitiveness through wider access to foreign markets and an improved regulatory environment.

The EC adopted a communication in April 2010 for a "[European strategy on clean and energy-efficient vehicles](#)".

**Global perspective**

World car production		
2011	'000	Share
EU	15 702	26.2%
China	14 485	24.2%
Japan	7 159	11.9%
Nafta*	5 614	9.4%
Sth. Korea	4 222	7.0%
India	3 038	5.1%
Other	9 709	16.2%
Total	59 929	100%

Source: OICA, CCFA estimates for July 2012  
\*NAFTA: Canada, USA and Mexico

Since at least 2001, EU car production has been around 17 million units per annum. During that period China's production has risen from almost nothing to over 14 million units in 2011. Indeed, vehicles produced in China now represent about 30% of Volkswagen's global sales.

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**EU exports / imports**

The EU's largest trade surplus is in cars, with sales concentrated in the higher priced (premium and large-sized) part of the market; trade in

EU car imports / export		
2011	€million	'000
Imports	24 201	2 318
Exports	93 819	5 356
Balance	69 618	3 038

Source: EUROSTAT

concentrated in the higher priced (premium and large-sized) part of the market; trade in

2011 world car production	
Top 10 manufacturers	Number ('000)
<b>Volkswagen</b>	7 964
Toyota	6 794
General Motors	6 736
Hyundai-Kia	6 118
Nissan	3 581
<b>Peugeot Citroen</b>	3 162
Honda	2 886
<b>Renault</b>	2 443
Suzuki	2 337
Ford	2 239

Source: OICA, CCFA, Estimates 7/2012

smaller sized vehicles is, relatively, in balance.

From 2006, net EU exports increased due to:

- Growth, notably sales to Russia,
- Asian manufacturers opening production facilities in the EU (in particular in Poland, the Czech Republic and Slovakia), which replaced imports.

DG Trade [identifies](#) Japan as the EU's biggest car trade deficit country, from which it imports four times more cars than it exports. Other significant deficit countries are South Korea, India and Turkey.

Germany, Spain and France are major net exporters of vehicles, while the Czech Republic, Poland and Slovakia

EU car export destinations		
2011	Value (in €m)	Market share
US	19 543	20.8%
China	17 348	18.5%
Russia	7 050	7.5%
Switzerland	6 653	7.1%
Turkey	5 215	5.6%
Japan	5 094	5.4%
Other	32 916	35.1%
World	93 819	100%

Source: EUROSTAT

produce a lot more than domestic demand requires - they also have intra-EU sales. However, according to a 2009 EC [report](#), the 'large' exporting countries also import a lot of their components: 40% by value, 25% of which come from other EU MS.

Germany exported more than 4.5 million cars in 2011 - a record - with the US and China being the main markets. VW exports 40%, mostly of the up-market Audi brand.

[Free Trade Areas and the crisis in the European car industry](#) a February 2012 report from [ECIPE](#), says that more than 85% of cars for the EU are manufactured here: Japanese imports have 5% of the market and the US less than 3%. Most foreign brands produce their cars in the EU. This reflects EU import tariffs (normally 10%, but reduced to 6.5% for developing countries)

which are usually higher than profit margins and thus dissuade imports.

There is also the cost of transport of a heavy vehicle from overseas. Added to that are differences in consumer tastes, which encourages

EU car import sources		
2011	€'m	Share
Japan	6 652	27.5%
USA	4 721	19.5%
S. Korea	3 415	14.1%
Turkey	3 370	13.9%
Mexico	2 309	9.5%
India	1 547	6.4%
Other	2 187	9.1%
World	24 201	100%

Source: EUROSTAT

local development and sourcing, and foreign exchange fluctuations.

## Status and outlook

The EU has had a surplus in production capacity over demand for some time, currently estimated at around 15%. Particularly over-capacity affected are Italy (30%), Spain and France (20% each) whose markets are 85% for small and medium-sized cars, which have lower profits. Other structural problems in the industry are considered to include declining relative productivity, lower returns from innovation and the slow transition to high value-added production. PSA Peugeot-Citroën - Europe's second largest manufacturer - Renault and Fiat are all considered to be in a difficult situation.

The EU market is considered mature. Annual average car sales have been just over 17 million units over the last few years, with 239 million cars in total on the road in the EU in 2010. With new vehicle sales being mainly replacements, there is significant flexibility in purchase timing. Loan availability is also important to finance the purchase of the relatively high cost cars.

Third-country markets are growing fast. China has a motorisation rate of only 58 vehicles per 1 000 people (versus 477 in the EU in 2010).

The EU has made automotive exports a trade priority. Free trade agreements should affect flows and allow the possibility of greater import penetration.

The EU-Japan talks - between the largest and fourth largest economies in the world, covering almost one third of global GDP - started in November 2012. ACEA warned of imports increasing more than exports. Non-tariff barriers (e.g. discriminatory certification, additional testing requirements, and luxury taxes) are bigger trade barriers than tariffs. This is considered particularly true for Japan, which has relatively low imports despite no car tariffs. EU manufacturers have reported problems such as more favourable treatment for local producers in the Chinese, Korean and Indian markets.

## Main references

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7. [The French Automotive Industry 2012](#), Comité des Constructeurs Français d'Automobiles, September 2012.

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